

NOTICE OF CORRECTED PAGES

TO: Service List - D.T.E. 01-50
RE: Blackstone Gas Company, D.T.E. 01-50 (November 29, 2001)
DATE: December 13, 2001

Please find corrected pages 12, and 43 through 53 inclusive, in the above captioned matter.

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Commissioner

Deirdre K. Manning, Commissioner

insurance premium to the Affiliate (id.).

3. Analysis and Findings

The Department has found that direct assessment of costs to non-utility operations is preferred to an exclusive reliance on allocation factors. Berkshire Gas Company, D.P.U. 90-121, at 68 (1990). Where costs are common, however, allocation of costs between a utility and an affiliate is essential to ensure that ratepayers do not subsidize affiliate business costs. To maintain the bright-line between Blackstone's regulated utility costs and Affiliate costs, the Department finds that the Company must allocate the liability insurance premium to the Affiliate.

As the Company has provided no information on how much of the general liability insurance costs are attributable to the Affiliate, the Department must determine what allocation factor to implement. In this case, a direct allocation was not proposed by the Company. Instead, the Company proposed a revenue allocator for allocating similar types of expenses to the Affiliate (RR-AG-9). Therefore, the Department will use the revenue allocation as proposed by the Company to allocate to the Affiliate those expenses shared with the Company.

The Department finds it proper to allocate a percentage of the costs of the general liability insurance to the Affiliate, and the Department finds that the revenue allocation factor as proposed by the Company for other allocations to the Affiliate is reasonable. Consequently, the Department directs that \$8,695 of the premium costs be allocated to the Affiliate.

SCHEDULE 1**REVENUE REQUIREMENTS AND
CALCULATION OF REVENUE INCREASE**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
COST OF SERVICE				
Total O&M Expense	\$1,085,225	\$6,538	(\$28,484)	\$1,063,279
Depreciation and Amortization	65,318	0	0	65,318
Taxes Other Than Income Taxes	30,137	542	0	30,679
Income Taxes	68,897	(49,343)	5,016	24,570
Interest On Customer Deposits	1,021	0	0	1,021
Return On Rate Base	167,000	(36,525)	60	130,535
Total Cost Of Service	\$1,417,598	(78,788)	(23,407)	\$1,315,403
OPERATING REVENUES				
Operating Revenues	1,195,542	0	0	1,195,542
Other Revenue	1,990	0	0	1,990
Total Operating Revenues	1,197,532	0	0	1,197,532
Revenue Deficiency	\$220,066	(78,788)	(23,407)	\$117,871

SCHEDULE 2**OPERATIONS AND MAINTENANCE
EXPENSES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
O&M Expense Per Books	\$1,065,367	(\$662)	\$0	\$1,064,705
Less Purchase Gas Expense	\$591,464	0	0	\$591,464
Net O&M Expense	473,903	(662)	0	473,241
ADJUSTMENTS TO OTHER O&M EXPENSE:				
1996 Wage & Salary Expense	11,981	0	0	11,981
Unbundling Expense	(25,246)	7,361	0	(17,885)
Liability Insurance	10,000	(4,114)	(8,695)	(2,809)
Uncollectible Expense	(1040)	(253)	(8,349)	(9,642)
Benefit Allocation to Affiliate	0	(3,443)	0	(3,443)
Property Tax Blackstone	617	(617)	0	0
Property Tax Bellingham	(75)	75	0	0
Rate Case Expense	12,000	9,284	(5,066)	16,218
1996 Inflation Allowance	11,621	(1,093)	(6,374)	4,154
Total Adj. to Other O&M Expense	19,858	7,200	(28,484)	(1,426)
Adjusted Net Total O&M Expense	493,761	6,538	(28,484)	471,815
Total Adjusted O&M Expense	\$1,085,225	\$6,538	(28,484)	\$1,063,279

SCHEDULE 3**DEPRECIATION AND AMORTIZATION
EXPENSES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Depreciation Expense	65,318	0	0	65,318
Amortization Expense	0	0	0	0
Total Depreciation and Amortization Expense	\$65,318	0	0	\$65,318

SCHEDULE 4**RATE BASE AND RETURN
ON RATE BASE**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Utility Plant in Service	1,931,897	(42,259)	0	1,889,638
LESS:				
Reserve For Depreciation	515,296	0	0	515,296
Net Utility Plant in Service	1,416,601	(42,259)	0	1,374,342
ADDITIONS TO PLANT:				
Cash Working Capital	60,875	806	(3,512)	58,169
Reserve for Deferred Inc. Taxes	82,942	(82,942)	0	0
Customer Deposits	10,750	(10,750)	0	0
Total Additions to Plant	154,567	(92,886)	(3,512)	58,169
DEDUCTIONS FROM PLANT:				
Reserve for Deferred Inc. Taxes	0	82,942	0	82,942
Customer Deposits	0	10,750	0	10,750
Total Deductions from Plant	0	93,692	0	93,692
RATE BASE	1,571,168	(228,837)	(3,512)	1,338,819
COST OF CAPITAL	10.6%	-0.88%	0.03%	9.75%
RETURN ON RATE BASE *	167,000	(36,525)	60	130,535

* Rounded

SCHEDULE 5				
COST OF CAPITAL				
<-----PER COMPANY----->				
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$290,821	18.51%	8.79%	1.63%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	1,280,347	81.49%	11.00%	8.96%
Total Capital	\$1,571,168	100.00%		10.6%
Weighted Cost of Debt				1.63%
Equity				8.96%
Cost of Capital				10.6%
<-----PER COMPANY - ADJUSTED----->				
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$787,530	57.84%	8.79%	5.08%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	574,128	42.16%	11.00%	4.64%
Total Capital	\$1,361,658	100.00%		9.72%
Weighted Cost of Debt				5.08%
Equity				4.64%
Cost of Capital				9.72%
<-----PER ORDER----->				
	PRINCIPAL	PERCENTAGE	COST	RATE OF RETURN
Long-Term Debt	\$680,829	50.00%	9.00%	4.50%
Preferred Stock	0	0.00%	0.00%	0.00%
Common Equity	\$680,829	50.00%	10.50%	5.25%
Total Capital	\$1,361,658	100.00%		9.75%
Weighted Cost of Debt				4.50%
Equity				5.25%
Cost of Capital				9.75%

SCHEDULE 6**CASH WORKING CAPITAL**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Other O&M Expense	473,903	(662)	0	473,241
Net Adjustments to Other O&M Expenses	19,858	7,200	(28,484)	(1,426)
Total Amount Subject to Cash Working Capital Allowance	493,761	6,538	(28,484)	471,815
Cash Working Capital Allowance (Total times 45/365)	60,875	806	(3,512)	58,169

SCHEDULE 7**TAXES OTHER THAN INCOME TAXES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
FICA Taxes	17,887	0	0	17,887
Federal Unemployment Taxes	327	0	0	327
State Unemployment Taxes	1,401	0	0	1,401
State Health Insurance	98	0	0	98
Property Taxes	10,424	542	0	10,966
Total Taxes Other Than Income	30,137	542	0	30,679

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SCHEDULE 8**INCOME TAXES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Rate Base	1,571,168	(228,837)	(3,512)	1,338,819
Return on Rate Base	167,000	(36,525)	60	130,521
LESS:				
Interest Expense	39,090	30,119	(8,962)	60,247
Total deductions	39,090	30,119	(8,962)	60,247
Taxable Income Base	127,910	(66,644)	9,022	70,288
Taxable Income	196,807	(115,118)	13,167	94,856
Mass Franchise Tax (6.5 Percent)	12,792	(7,483)	856	6,166
Federal Taxable Income	184,015	(107,635)	12,311	88,690
Federal Income Tax Calculated	56,105	(41,860)	4,160	18,405
Total Income Taxes Calculated	68,897	(49,343)	5,016	24,570

SCHEDULE 9**REVENUES**

	PER COMPANY	COMPANY ADJUSTMENT	DTE ADJUSTMENT	PER ORDER
Operating Revenues per Books	1,195,542	0	0	1,195,542
Other Revenues	1,990	0	0	1,990
Total Operating Revenues	1,197,532	0	0	1,197,532

SCHEDULE 10

REVENUE INCREASE PER ORDER:

\$116,059

PER COSS (Exh. B-1)

	Test Year Gas Revenues	Test Year Base Revenues	Total Test Year Revenues	Revenue Increase at EROR	Revenue Reqmt at EROR	Adjusted Revenue Increase	Adjusted Revenue Reqmt	Revenue Deficiency from cap	Allocation of Total Revenue Deficiency	Revenue Reqmt Capped at 18.4%	Department Approved Base Revenue
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
	-	-	-						--	--	
RESIDENTIAL											
R-1 NON-HEATING	12,634	28,484	41,118	8,568	49,686	4,589	45,707	0	245	45,952	33,318
R-3 HEATING	350,343	393,158	743,501	115,318	858,819	61,766	805,267	0	4,432	809,699	459,356
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<i>TOTAL RESIDENTIAL</i>	362,977	421,642	784,619	123,886	908,505	66,355	850,974			855,651	492,674
G-1 GENERAL SERVICE	194,529	171,470	365,999	67,944	433,943	36,392	402,391	0	2,181	404,572	210,043
SCHOOL RATE	33,958	10,966	44,924	28,237	73,161	15,124	60,048	6,858		53,190	19,232
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TOTAL COMPANY	591,464	604,078	1,195,542	220,067	1,415,609	117,871	1,313,413	6,858	6,858	1,313,413	721,949

NOTES:

Column (A) - data from Exh. B-1, exh. 2 Schedule 1 (See Normal Gas Revenue);

Column (B) - data from Exh. B-1, exh. 2 Schedule 1 (See Normal Base Revenue);

Column (C) - Column (A) + Column (B);

Column (D) - data from Exh. B-1, exh. 2 Schedule 1 (See Required Increase/(Decrease));

Column (E) - Column (C) + Column (D);

Column (F) - (Column (C) / Column (C) Total Company) * Revenue Increase Per Order.

Blackstone Gas Company should computer Column (F) by rerunning the COSS per our directives in this order;

Column (G) - Column (C) + Column (F);

Column (H) - the revenue deficiency between Column (G) and 18.4% * Column (C);

Column (I) - the allocation of total revenue deficiency of Column (H) among those uncapped rate classes by multiplying Column (H) Total Company by percentage of each rate class to the Column (C) to the sum of Column (C) of all uncapped rate classes;

Column (J) - Column (G) - Column (H) + Column (I);

Column (K) - Column (J) - Column (A).

VIII. ORDER

Accordingly, after due notice, hearing and consideration, it is hereby

ORDERED: That the tariffs M.D.T.E. Nos. 66 through 72, filed by Blackstone Gas Company on May 15, 2001, to become effective June 1, 2001, be and hereby are DISALLOWED; and it is

FURTHER ORDERED: That Blackstone Gas Company shall file new schedules of rates and charges designed to increase annual base rate revenues by \$117,871 and it is

FURTHER ORDERED: That Blackstone Gas Company shall file all rates and charges required by the Order and shall design all rates in compliance with this Order; and it is

FURTHER ORDERED: That Blackstone Gas Company shall comply with all other orders and directives contained herein; and it is